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BONDS BURSTING IN AIR

by Frank Chodorov

The years pass quickly. In 1939, when the U.S. Government began the biggest promotion of promissory notes in history, the maturity date was as far off as marriage is for a girl playing with dolls. But 1949 did come and some holders of these bonds, the earliest ones, stepped up to the pay window. In the next ten years the Government will have to dig up $57 billion to meet the demands of "savings" bond buyers.

Figures are boring. Yet there is no other way of describing the Government's problem than by listing a few figures. Nearly three quarters of a billion dollars' worth of "savings" bonds will mature before December 31; next year the amount doubles; in 1952, it comes to just under $4 billion; in 1953, it is $6.8 billion; in 1954, $8.7 billion; in 1955, $7.5 billion. During the following five years the claims hold to around $5 billion each year.

These bonds were advertised as "prevent inflation" bonds. Their distinguishing feature is non-negotiability. They cannot be sold on the open market or used as collateral for loans; they must be held until maturity or sold back to the U.S. Treasury.

This special indenture was designed to keep the bonds out of the banking system. Therefore, they cannot be discounted with the Federal Reserve Board, which could then exchange them for more dollars from the U.S. Treasury. This was the logic of the "prevent inflation" argument. War hysteria made the logic impervious to analysis.

Now comes the day of reckoning. During the next ten years it will be demonstrated that these "savings" bonds are just as inflationary as any other kind issued by the Government. That was evident to anyone who took the trouble to look into the matter; the non-negotiability of these bonds simply delayed the inevitable process of inflation.

It is a certainty that the Government will meet its obligation, and on time; outright repudiation is out of the question, for the next decade anyhow. How will the Government raise the money? By the old-fashioned method of borrowing again -- or refinancing.

Two other alternatives are open to the Government, but both are politically inadvisable and can be dismissed offhand. One is an increase in taxation, but it is obvious that any administration that should attempt to put upon us an additional burden of approximately $6 billion per annum would lose favor.

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The other alternative is to exercise its monopoly privilege of printing dollars, resorting to the device of raising the legal price of gold. This, however, would immediately bring on all the social and political difficulties of outright inflation, and the state of the economy is not so desperate as to absorb that consequence.

II

For the present -- meaning the foreseeable future -- refinancing will be the order of the day. The Government will try to sell back to the public the bonds it must buy from the public, at the rate of approximately $6 billion per year, not only for the next decade but for every year thereafter. Every year, from now until eternity, or ultimate repudiation, will be a maturity year. But, let's think of the next decade only; eternity is beyond human comprehension.

Will the Government be able to induce the public to reinvest the proceeds from maturing bonds in new issues? If it can, there is nothing to worry about. The day of ultimate reckoning is put off.

But, suppose a considerable number of "savers" make comparison of the returns from these bonds with the returns offered by other investments. In 1940, when the investor bought the original bond, such comparison would have been out of order; the national need was uppermost in his mind. Now, however, the pressure of patriotic fervor is off. He thinks of the higher yield from common stocks, or industrial bonds, to say nothing of appreciation; the Government bonds lose their allure.

Or, he might know of a piece of land that in the last ten years has doubled in value. Maybe he had better buy now. After all, he needs a home, and even if the property does not appreciate in the same proportion, he is at least assured of a roof over his head.

He might reflect that in 1940 a thousand dollars bought an automobile that now costs twice as much; which thought might suggest further depreciation. Why save?

The effect of such reflection is to build up a sales resistance to "savings" bonds that did not exist at the time of original issue. Those to whom larger income is a burden will buy their share of tax-exempt bonds. The "rainy days" conservative will take some, because the exigencies of old age are his main concern. Will these two groups be able to absorb $6 billion of bonds every year? That is improbable. Remembering the pressure needed even during war to dispose of the original issues, the course of public refinancing seems difficult indeed.

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To overcome this sales resistance the Government is estopped from offering a higher rate of interest, because in so doing it would depreciate the value of all outstanding bonds; besides, raising the interest rates adds to the Government's budgetary difficulties. It may be, of course, that before the decade is over the "cold war" will have warmed up to the point where patriotism will again dull the power of reason. That would be a fortuitous circumstance.

III

To raise money to meet the maturities that cannot be resold to the public, the Government will be compelled to resort to negotiable bonds -- the kind that eventually get into the banks. The banks are so tied up with the fiscal policy of the Government that they cannot refuse more of its paper; with 60 per cent of their assets in Governments, rejection of more of them would depreciate the value of what they have. It may come to pass that all their cash reserves, to say nothing of their capital, will consist of bonds.

The bonds sold to financial institutions to meet the maturing "savings" bonds will make for inflation. That is why the "savings" bond was invented in the first place. Because of the rediscount process inherent in our banking system, the bond can bring into existence a number of dollars far in excess of its face value.

So, the "prevent inflation" bond becomes as inflationary as any other kind. We cannot know at this time how many more dollars will thus be poured into our economy in the next ten years, because we cannot predict with accuracy the amount of negotiable bonds that will replace the "savings" bonds. That it will be considerable, increasing with the years, is not an unwarranted assumption.

All this adds up to "boom". The pressure of these new dollars will first be felt in the commodity market -- the place where we try to exchange our wages for the satisfactions of life. That is where the trouble begins. Since the wage level always lags behind the price level, for one reason or another, we always grumble; but, when the discrepancy compels us to go without what we have become accustomed to look upon as necessaries, the grumbling grows vociferous. We look for victims, and, at providing them, the politician is a past master.

After a spate of vituperation against the "profiteers", there will be retributive legislation. Will price controls -- or, rather, the black market -- be revived?

Since rising prices must be followed by rising wages (or there will be no production), and since an increase in wages adds to the in-

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flationary ferment, will the politicians attempt wage controls? No doubt the professors of economics will advise it and will prove the feasibility of wage and price fixing, even with calculus.

A good many of the dollars retrieved by liquidation of the "savings" bonds will seek a "hedge" in the securities market. Of all the factors that influence the price of stocks and industrial bonds none is more potent than the pressure of dollars; that is what makes for new "highs". We can expect to read about them in front-page editorials during the years directly ahead of us.

IV

That will bring upon Wall Street -- the perennial scapegoat for political misfeasance -- a volume of billingsgate, and legislation. The old stand-bys will be tried again: elimination of margin-buying, putting a limit on the rise or fall of prices in a day, discouraging "short" sales, greater interference by the SEC.

As always, many of the new dollars will press upon land values. Urban property will attract investors, agricultural land will benefit not only from continued Government support of crop prices but also from an increasing urge for subsistence acreage "when the crash comes". In the case of urban lands, intervention has been limited to rent controls; what form will they take in a "boom" of frightening proportions?

Exact predictions are impossible, because the vagaries of political thinking are not subject to any known rules of logic. All we can be sure of is that expediency at any given moment will be the deciding factor, and that political power will take advantage of the "emergency" to further entrench itself. To be sure, legislation will multiply and so will the bureaucrats.

And, of necessity, taxes. The situation will fortify the contention that taxation is a means of "correcting" the fluctuations in our economy; thus, the way to stop Wall Street is to tax dividends or excess profits to the hilt; wages can be kept in line by "social security" taxes; and so on.

The ultimate outcome? That is not within the compass of this discussion. But, for those who are inclined to "view with alarm", it should be of some comfort to know that the human capacity for making adjustment minimizes the shock of catastrophe; in fact, all catastrophe is in the future.

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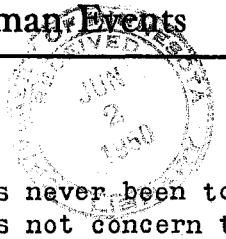
Not Merely Gossip *A Supplement to* Human Events Vol. VII, No. 21



By Frank C. Hanighen May 24, 1950

AMERASIA CASE: The real story in the Amerasia case has never been told, although all the facts have been published. The true story does not concern this or that bureaucrat who betrayed his trust. It concerns a propaganda technique which few in this country understand, but which the Communists employ admirably. The tip-off appears in testimony to the Hobbs Committee (Congressional Record, May 22, 1950, page 7549) given by Mr. Larsen, when asked about the circulation of Amerasia. "Two thousand", said Larsen, "or something like that, but the magazine hits vital spots. That is the danger of a magazine like that. Do not let the figure fool you."

Yes, do not let such figures fool you. The Communist strategists in this country are infinitely smarter than the conservative publishers of mass magazines and newspapers. They know that the most effective way of influencing public opinion and policy is the indirect method. If you influence the people who in turn shape opinion and policy, your task is accomplished. These key people ("the vital spots"), in turn, sway the masses through the various media of publication.

The creation of Amerasia was only part of the scheme. The Communists and fellow travellers also infiltrated the Institute of Pacific Relations, with a small but important membership and with two small-circulation publications. Thus the Reds captured the whole "expert" apparatus for "informing" and influencing American opinion on policy in the Far East. These publications went to the colleges, to members of the Government bureaucracy, to journalists, and others who sought to understand and explain the complicated field of Far Eastern politics. Thus young, naive college instructors, "analysts" in Government offices, editorial writers and staff members of big magazines took as gospel truth, or were at least strongly affected by, data which the Communist machine put out. And so, a thoroughly anti-Communist publisher of a large-circulation magazine remained blissfully unaware that his own employees commented on Far Eastern matters with the ideas of Amerasia -- in short, the publisher was ignorant of the fact that he was in effect publishing the Communist Party line. Unfortunately there was no other periodical -- of small, "expert" circulation -- which could have given a true picture and counteracted Amerasia, et al. Thus, the public swallowed such frauds as "Chinese Communists are merely agrarian reformers", and our Far Eastern policy came to disaster.

This coup of the Communists via Amerasia is no isolated case. Communists and Socialists have followed the same strategy in the field of domestic policy. Some magazines of small circulation exert far more influence than periodicals with millions of readers. Serious, well-written, couched on a high plane of presentation, subtly intertwined with philosophic dissertations, provided with well-documented facts and figures -- these "liberal" publications go to those who shape opinion: editorial writers, teachers, preachers, lecturers, radio commentators, bureaucrats, etc. Many of these key people, in all innocence, relay either the Communist line or the Fabian Socialist line, on one or another of the live issues of the day. The Left has learned the technique of the dissemination of ideas as the Right has never done. This is the story which is infinitely more important than the cops-and-robbers pursuit of this or that subversive official.

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HUKBALAHAPS: High State Department circles over last week end privately discussed the internal situation of the Philippines, with grave concern. Foreign policy advisers take a serious view of the increase in the activities of the Filipino Communist-led groups, called Hukbalahaps. Advisers wonder whether these zealots

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will try to disturb the coming conference of Southeast Asia governments to be held at Baguio, in the Philippines. Some sources report military preparedness in the area, and President Quirino took the trouble to say that he would guarantee that no trouble would occur. The Philippine Government and Australia want the conference to seek a military agreement for co-operation against Communist aggression; but India reportedly dissents. There has even been some rather wild talk, in State Department quarters, about the possibility of moving Chiang Kai-shek's army from Formosa to Luzon. We report these conversations among policy makers in Washington for what they may be worth.

However, one cannot resist noting two matters. (1) Among pieces about the activities of the Hukbalahaps, there creeps in the note of "let's understand these little agrarians". We cannot forget the great crusade four or five years ago led by the fellow travellers in which Americans were summoned to "understand" the Chinese Communists, to recognize that after all they were simply "agrarian reformers". (2) Some press circles who harped on the above strain now are taking a vivid interest in governmental scandals in Manila. The Quirino regime is all at once pictured as riddled with corruption. We cannot forget that one part of the case laboriously built up against the Chiang Kai-shek Government was that it was corrupt -- ergo, the Chinese Communists should be allowed to take over. The charges against Quirino's Government may or may not be correct; may or may not be exaggerated. But it is ominous that they should appear now.

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DUFF: We note that the victorious Pennsylvania Governor likes to be called "progressive", in view of his Bull Moose pedigree in 1912. Whether he is really "progressive" or not remains to be seen. A litmus test will come when we see what such columnists as Alsop and Childs call him; and, importantly, how he reacts to the flattery of the internationalist clique. Since Duff obviously would like to don the mantle of Theodore Roosevelt, his old idol, he might well study T.R.'s acceptance speech (1910), when awarded the Nobel Peace prize.

The Rough Rider did not dash in with some incredible nostrum for all the world's ills; he cautiously limited his recommendations. Specifically, he did not plump for one idea then budding forth -- a global police force, with power to keep the peace in every corner of the world. He obviously didn't think that all Powers were, per se, "peace-loving". He just offered the notion that any international police force should include only those who really wanted to maintain peace. It's a little late in the day for such as this now, but at least we can't say that 40 years ago T.R. failed to show us the way of prudence. In any case, his new incarnation up in Pennsylvania might well consult the old scriptures as laid down at Sagamore Hill, before assuming the role of world statesman.

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TOTAL DIPLOMACY: Edna Lonigan reports that, while the groundlings petition Congress to adopt world government by legal process, the real strategists of the World State are quietly meshing our governmental machinery with that of UN. In abstract language it sounds as if UN were "above" the national governments, to be reached, like Heaven, by a staircase. But world government is just another room, in which the same officials can work, unhampered by restraints of Congress and the law. Once Congress gives them an appropriation, via the UN, and a broad general grant of powers they are on their way, with no outward and visible sign of a Constitutional revolution.

Harry Hopkins established the pattern when he made Stettinius head of part of lend-lease, but kept most of it under his own control as chief of the Munitions Assignment Board, a supranational agency free from Congress. There are many pockets

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through which the Administration may work by means of supragovernmental machinery, as in the House version of Point Four, where the President is empowered to spend all the money through our officials in UN.

Now we have the capstone -- the Financial and Economic Committee of the Atlantic Pact, which is to "broaden" ECA, and "reconcile" demands of the military with civilian "needs". This new committee is to have a permanent staff, and carry out the policies of the governments of the associated nations. This is pure Executive absolutism, of course, consistent with the ideas of our Government planners and those of England and Russia, but irreconcilable with our Constitution. It leaves those who dissent from the government in power without a political role. No minority could ever gain power, or turn our foreign policy back to American principles. "Republicans" who wanted power would flock to the new Leviathan.

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NOW IT CAN BE TOLD: Revisionism in the historical field is now on the increase. It would be difficult to find a better description of its inevitability than the following from the recent book (published in England, but not in the United States), Christianity and History, by Herbert Butterfield, Professor of Modern History, University of Cambridge: "That the whole popularly-accepted historical framework which we have given to the events of the last 50 years will be revised, and revised so radically that the quarrels between pro-Munich and anti-Munich will seem like the quarrels of Tweedledum and Tweedledee -- this, in spite of the colossal power of the vested interests ready to clamp down upon it, and in spite of the hysterias that some people will try to raise -- is the safest prediction that can be made in regard to the next twenty years for anything in the whole range of historical science."

Professor Butterfield lays down a law of politics: "if two rival giants are offering an alternate threat to the existing order of things on the Continent, and if you are unwilling to let the rascals fight it out by themselves, choose carefully the time of your intervention in their struggle and see that you intervene only in order to save whichever of the two it may be from being destroyed by the other. For, so long as there are two of these giants on the Continent the world can breathe; but if you devote a war for righteousness to the purpose of destroying one of them you are using your blood and treasure to build up the other one into a greater monster than ever, and you will infallibly have to face it at the next stage of the story. In other words the policy of ridding the world of aggression by the method of total war -- of the war for righteousness -- is like using the devil to cast out the devil: it does not even have the merit of being practical politics."

And, finally: "It is not always realized -- though once again the Eighteenth Century showed clear consciousness of the point -- that the existence of a number of States intermediate in size but authentically controlling their own policy, so that they could shift their weight from one side to another, long served to provide ball-bearings for the European States-system, and made self-adustments in that system more easy. The virtual elimination of this order of things after two World Wars, and the reduction of effective diplomacy to the transactions of very few great Powers, keeps everything taut, so that every episode is a crisis, and it is difficult to see how the tension can be relaxed. If after 1945 things were so balanced that the predicament of Hobbesian fear was produced and all had to feel that the future of Europe depended on Germany -- the Western Powers unable to tolerate Communism in that country, Russia determined not to be checkmated by the formation of an anti-Communist government there, and neither side able to afford to withdraw and allow the Germans authentically to determine their own future -- such a predicament, viewed as the culmination of forty years of diplomacy and war, would look very much like the judgment of God on the victor nations themselves."

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Book Events

The State of Europe, by Howard K. Smith. New York: Alfred A. Knopf. $3.75.
Reviewed by W. H. Chamberlin.

This book is a product of the mental indigestion that is apt to follow an attempt to eat your cake and have it too. The author, a well known European CBS broadcaster, develops a world viewpoint suggestive of a smarter, more erudite and more sophisticated Henry Wallace. He wants the civilized liberties of the West. But he also hankers after the totalitarian fleshpots of the planned economy, most consistently developed behind the Iron Curtain.

The result is a guided political tour of Europe which reminds one of the old-fashioned mirror maze, with many situations seen out of all perspective. Mr. Smith has evidently thought more and read more than the average foreign correspondent. One finds shrewd insight into America's eternal trilemma -- its need to import more, export less or give away its substance in order to square its swollen favorable balance of trade; and some shrewd observations on Europe's need for federation and on some of the historical developments which are dragging Western Europe down.

But the book inspires more questions than it answers. And it is heavily interlarded with cocksure dogmatic assertions for which no proof is adduced, with gross exaggerations and serious inaccuracies.

For instance, Mr. Smith asserts that the Iron Curtain satellite governments "have won a highly favorable response from the common people". How does he know? And how would any of the common people who might wish to enter a dissenting opinion find a safe means, or indeed any means, of making their objections known?

The author goes into ecstasies over alleged economic and social progress behind the Iron Curtain and likes to contrast this with the unsolved social problems of the West. But he never explains why emigration is a strictly one-way street, with the traffic moving in an East-West, not in a West-East direction. The chances are that a substantial proportion of French, Italian and other West European Communists would tear up their party cards if they were required, as a price of continued membership, to live in some Communist country.

Mr. Smith tries to excuse Communist terror in the satellite countries by arguing that pre-war regimes were much more terroristic. But many individuals whose experience is much longer and deeper in this part of the world than his are emphatically committed to the opposite opinion. He might have also considered the case of two Polish Jewish Socialists, Henryk Ehrlich and Viktor Alter who carried on an active political life under the authoritarian rule of the colonels, but were executed by the Soviets.

A few among many samples of inaccuracy are the following: "As for the overwhelming mass of the Soviet people, their loyalty was complete." But the Germans got more recruits for their armed forces in Russia than in all the other countries they invaded. "American Big Business held investments in German Big Business amounting to over a billion dollars." This figure is a ridiculous exaggeration. "The yawning emptiness of Belgium's innumerable restaurants and cafes since the war." They seemed pretty well filled when I visited Belgium last summer.

Perhaps the crowning absurdity of this opinionated and doctrinaire Leftist squint at Europe is the author's expressed conviction that the free market and the profit motive are outdated and that production is aided by such devices as subsidies, import quotas, tariffs, government buying, etc. There is a hole, as big as the traditional barn door, in this theory. For it fails to explain why the countries with the relatively freest economies (the United States and Canada, Belgium and Switzerland) are so visibly more prosperous than the lands which go in for the heaviest doses of Mr. Smith's economic pink pills.

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